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SUBJECT: SRI LANKA: FISCAL TRANSPARENCY REPORT

REF: SECSTATE 16737

11. (U) The following is the text of Embassy Colombo's fiscal transparency report for Sri Lanka.

12. (SBU) Begin text:

Sri Lanka has achieved a substantial degree of fiscal transparency in areas such as legal and administrative framework, compilation and reporting of fiscal accounts for the central government, and explicit separate accounts for the public corporations. Sri Lanka's budget is made public through a publication. The President's budget speech and a summary of revenue and expenditure estimates are published on the internet. There is a 12 month time lag to release actual detailed budget data for a given year. The budgets are prepared on a medium term budget framework. Budget documents contain all central government revenue and expenditure. Details of expenditure on military hardware are not provided in budget documents available to the public. The government's budget documents do not contain accounts of public corporations or of provincial and local governments. Public corporations publish separate accounts.

The government's budget transparency has been enhanced by the Fiscal Management (Responsibility) Act, passed in 2003. The Act lays out clear obligations for fiscal control, budget preparation, monitoring, reporting and parliamentary review with explicit medium term targets. While fiscal targets contained in the FMRA have not been achieved to date, reporting has improved. As required by the FMRA, the government publishes a fiscal strategy statement, a budget, an economic and fiscal position report, a mid-year fiscal position report and a final budget position report. These reports are presented to parliament and published on the internet.

The government has backtracked recently on previous measures to improve transparency and the fiscal oversight role of parliament. Beginning in 2003, the government has allocated increasingly large sums to a special Finance Ministry account. The government has used this account to pay for expenses in various ministries as they arise throughout the year, by transferring funds on a case-by-case basis. Some of these payments are described in the "Budget, Economic and Fiscal Position Report," but many more are not detailed at all. The Supreme Court in 2007 instructed the government to more fully report the use of these funds to Parliament as required by the Fiscal Management (Responsibility) Act.

To achieve full transparency, additional reforms are needed. These include provision of data on accounts payable and commitments, and publication of intra-year data in a timely manner. Consolidated

general government accounts need to be prepared and transactions between government and public enterprises further clarified. Transparency could be enhanced by strengthening the audit process.

The government has been working with donor agencies to improve the budget process. The World Bank is considering a \$32 million loan for Public Financial Management and Statistical Institution Building. This project will build technical capacity to improve public financial management. The Asian Development Bank has assisted the government with a fiscal management reform program during 2005-2008. The program aimed to support fiscal consolidation through improving public resource and expenditure management systems, fiscal discipline and supporting fiscal decentralization. ADB's standby loan list for 2008 includes a second Fiscal Management Program to further enhance expenditure management, internal auditor and service delivery.

End text.
BLAKE